

**CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES**

**Financial Statements
(With Independent Auditor's Report Thereon)**

**Independent Auditor's Report on Compliance and on
Internal Control over Financial Reporting**

Schedule of Findings

June 30, 2010 and 2009



Shull
and Co. P.C.
certified public accountants

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

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CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Officials

June 30, 2010

Electric and Water Utility Board of Trustees

Authority: Indianola City Ordinance No. 642

		<u>Term Expires December 31</u>	<u>Amount of Bond</u>
Pat Reding		2011	50,000
Clark Raney	June 2010 Chairperson	2012	50,000
Chris Boone	July 2009 Chairperson	2013	50,000
Eric Vander Linden		2014	50,000
Bob Lester		2015	50,000

Indianola Municipal Utilities Management

Todd Kielkopf	General Manager	50,000
Chris Longer	Program Coordinator	50,000
Bob Miller	Electric Superintendent	50,000
Lou Elbert	Water Superintendent	50,000

City Officials and Management

[vacant]	Director of Finance and Administrative Services	50,000
Roxanne Hunerdosse	Director of Human Resources	50,000
Diana Bowlin	City Clerk	50,000
Douglas Shull	City Treasurer	50,000
John Hoyman	City Solicitor	50,000

All other city employees are bonded under the Allied Insurance, "Faithful Performance Blanket Position Bond," in the amount of \$50,000.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Board of Trustees Report

March 1, 2011

To the Honorable Mayor, Members of the Council, and Citizens of the City of Indianola,

This report consists of the board and management's representations concerning the finances of Indianola Municipal Utilities. Consequently, the board and management assume full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, the board and management have established a comprehensive internal control framework that is designed both to protect the utility's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of these financial statements. Because the cost of internal controls should not outweigh their benefits, the utility's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. The board and management assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Indianola Municipal Utilities' financial statements have been audited by Shull & Co., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2010 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that Indianola Municipal Utilities' financial statements for the fiscal year ended June 30, 2010 are fairly presented. The independent auditor's report is presented as the first component of the financial section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statement in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

Profile of the Utility Board of Trustees

The City of Indianola, incorporated in 1864 and the county seat of Warren County, is located in the central part of the state approximately 17 miles south of the state capital, Des Moines. Indianola is considered part of the Des Moines MSA, one of the top growth areas in the state. The City of Indianola encompasses an area of approximately nine square miles and a population of 14,156. The city provides electric, water, and telecommunications services as a discretely reported component unit under the management and control of a board of trustees. The board operates these three utilities as Indianola Municipal Utilities (IMU). This system of management and control was established by a vote of the electorate and implemented by city ordinance in 1973 as provided in Iowa Code.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Board of Trustees Report - Continued

Electric and water utility territories are fixed in that any new territory expansions must be negotiated and purchased from incumbent service providers. The telecommunications utility currently leases fiber optic lines to customers in a partnership contract with a private telecom service provider.

Utility board. Utility boards are vested with the authorities of the city in relation to these utilities, with the exceptions that the board may not certify taxes to be levied, pass ordinances or amendments, or issue general obligation or special assessment bonds. Real property is held in the name of the city, but the utility board has all the powers and authorities of the city with respect to the acquisition by purchase, condemnation, or otherwise, lease, sale, or other disposition of such property, and the management, control, and operation of the same, subject to provisions of any outstanding obligations which are payable from the revenues of the city utility. Separate funds are maintained for each utility. Utility fund balances deemed by the board of trustees to be in excess of the needs of a utility may be transferred to any other fund, upon approval by the city council. The five trustees are appointed by the mayor and approved by the city council, each serving staggered six-year terms.

Management. The board of trustees appoints a general manager to oversee the day-to-day management of the electric, water, and telecommunications utilities. The general manager appoints the employees of each of these utilities, carries out the policies of the board of trustees, and performs other duties as determined by resolution of the board.

Other officials. A director of finance serves as the chief accounting officer for all city services, including those provided by IMU, and submits budget and year-end financial reports required of the utility. There is also an appointed clerk, which serves as the secretary of the board of trustees and as such has custodial duties prescribed in Iowa Code, local ordinances, board resolutions, and by management discretion. An appointed treasurer serves as custodian for all funds. An attorney is also appointed to represent the city, its boards, and its commissions and performs certain functions prescribed in local ordinances and in the Iowa Code.

Budgeting process. The annual budget serves as the foundation for the utilities' financial planning and control. The budget process, in general, is as follows:

- The general manager submits a 5-year capital improvement project budget to the board of trustees for review and adoption.
- Departments submit operating budget requests to the general manager.
- The general manager compiles the annual budgets for review.
- The board of trustees adopts budgets for the electric, water, and telecommunications utilities. These are compiled with the City of Indianola's governmental services' budgets and that of the sewer utility for presentation to the public in publication form.
- The city council sets and conducts a public hearing on the budget.
- Any proposed changes to the IMU budget are referred back to the board of trustees.
- The city council adopts the overall budget and the budget is filed with the county auditor and the State of Iowa no later than March 15 of each year.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Board of Trustees Report - Continued

The State of Iowa limits expenditures to the total amount budgeted by function. Expenditures for individual departments or services may exceed those budgeted as long as total expenditures by function are not exceeded. Budget amendments are permitted under provisions similar to the adoption of the original budget. Budget-to-actual comparisons are provided in this report on a cash accounting basis, which is consistent with the city's financial basis of accounting.

Cash management policies and practices. The board of trustees annually reviews and adopts an investment policy outlining the roles and responsibilities in making investments using available cash balances. The clerk and treasurer are jointly responsible for the investment of funds under that policy, with oversight by the board of trustees.

Cash temporarily idle during the year was invested in bank deposits or money market funds, repurchase agreements, and the Iowa Public Agency Investment Trust. These temporary cash deposits were maintained in stable value investments with a June 30, 2010 rate of return of .25%.

The utility invests reserve funds (those not intended to be expended within 365 days) in a portfolio with the assistance of an investment advisement firm. The investment portfolio includes mortgage-backed securities, obligations of the U.S. Treasury or its agencies, and cash held in a public entity money market fund. At fiscal year end, the effective duration of the portfolio was 2.1 years with a current yield of 3.9%. Reported returns may include changes in fair value during the year but do not necessarily represent continuing returns; nor is it always possible to realize changes in fair value, especially in the case of temporary changes for securities the city intends to hold until maturity.

Additional information on the utility's cash management can be found in notes to the financial statements.

Risk management. Indianola Municipal Utilities participates in the Iowa Communities Assurance Pool (ICAP), a local government risk-sharing pool with over 500 members throughout the state of Iowa. The utility makes annual contributions to ICAP recorded as disbursements from its operating funds for automobile, property, casualty, and liability coverage. The utility maintains reserve funds to meet deductibles as they occur. The utility also participates as a member of the Iowa Municipal Workers' Compensation Association (IMWCA) and pays premiums to the association on an annual basis from its operating funds. The utility purchases boiler and machinery insurance from a private carrier. In addition, the utility has an ongoing safety program to monitor its facilities and employees to maintain a safe environment for employees and the public. Additional information on Indianola Municipal Utilities' risk management activity can be found in notes to the financial statements.

Pension and other post-employment benefits. Indianola Municipal Utilities provides pension benefits for its employees. These benefits are provided through a statewide plan managed by the Iowa Public Employees Retirement System. Indianola Municipal Utilities has no obligation in connection with employee benefits offered through this plan beyond its periodic payments based on earned compensation by active employees.

CITY OF INDIANOLA, IOWA
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Board of Trustees Report - Continued

IMU also provides post-retirement access to its medical insurance plan until age 65 as required under Iowa Code. Retirees contribute an amount equal to the premium amount charged to city departments and active employees on a pay-as-you-go basis.

IMU maintains a health reimbursement arrangement (HRA) for the benefit of employees. The utility makes a fixed annual commitment that employees may use to offset premium contributions or cash payments for any medical expense allowed under IRS Code. If the employee does not utilize the full amount provided in the fiscal year, the balance is carried forward to the following year and is available in any future period, including after retirement. Disbursements are paid out of operating funds and not held in trust. They are, however, accounted for in a sub-fund that is separate from other operating funds for budgetary control.

Additional information on the utility's pension arrangements and other post-employment benefits can be found in notes to the financial statements.

Closing

State law and city ordinance require municipal utility boards to provide the city council an annual report with complete financial statements. State law also requires the city to publish within nine months of the close of each fiscal year a complete set of financial statements, including that of municipal utilities as a component unit. State law requires that financial statements must be audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to these requirements, we hereby issue this report for Indianola Municipal Utilities for the fiscal year ending June 30, 2010.

Clark Raney
2010 Board Chairperson

Todd Kielkopf
General Manager

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Operational Review

Utility operations are divided into departments, all of which work toward the common goal of providing superior services to the citizens of Indianola. The IMU Board of Trustees annually adopts a Strategic Plan complete with service objectives, operating strategies, and annual goals.

The following summary provides a brief review of the various departmental activities and accomplishments in FY 2010.

- **Electric Utility.** The electric utility provides reliable service by purchasing wholesale energy for the community as a whole, receiving it over the transmission system, generating electricity within Indianola as needed, and distributing it safely to customers. Significant progress towards implementing operational strategies include:
 - Worked with MEAN on planning and management issues related to the transition of transmission control from MidAmerican Energy to the Midwest Independent System Operator (MISO).
 - Began design work with contracted engineers for the 2010 Underground Conversion Project, which will convert the entire community north of Hwy 92 and east of Hwy 65/69.
 - Underground conversion projects on the East Side of The Square (IUB safety compliance issue), North Howard Street (conflicts with new city trail project), W. Kentucky (deteriorating pole line) and North "Y" St. (street lighting for new paving).
 - Approved electric & telecom extensions to serve the Summercrest Hills project.
 - Completed construction of an 8,000 sq. ft. storage facility at the East Iowa turbine & substation site
 - Completed updating the Long Range Electrical System Conversion Plan and financing plan
 - Completed design work on the 2010 Underground Conversion Project (East Side Conversion); began legal, bidding and financing processes
 - Received study on NERC compliance issues
 - Completed legal, bidding and financing the 2010 Underground Conversion Project (East Side Conversion); a positive bidding and financing environment will allow for more work to be done than expected with .5% lower retail rate impact
 - Initiated engineering work for the Fuel Oil Storage Tank Painting Project
 - Began design work on Westside Substation 69kV Line Terminal Addition; negotiated interconnection with CIPCO and MEC.

CITY OF INDIANOLA, IOWA
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Operational Review - Continued

- **Water Utility.** The water utility provides reliable water service by pumping it from wells, treating it, keeping enough in storage to meet daily needs, and distributing it to customers. Significant progress towards implementing operational strategies include.
 - Completed installation for the US Cellular antennae at the Simpson water tower
 - Approved construction of variable speed drives at the treatment plant that may delay the need for a 3rd water tower and relieve excess pressure on older mains
 - Worked with the contractor for painting the Simpson water tower to delay until next year due to the need to install variable speed drives at the water plant
 - Hired engineer to study Hillcrest water tower.
 - Began centralizing storage of departmental equipment within Water Dept. facilities
 - Worked on plant repairs and installed new variable speed drives on 2 high service pumps
 - Worked on installing radio read meters
 - Repaired several water main breaks
 - Completed study on the condition of the Hillcrest water tower
 - Prepared rules & regs. to declare non-functioning stop boxes a public nuisance where electricity has been disconnected
 - Worked with the contractor to start repainting the Simpson water tower, reviewed additional scope of work for interior repairs and issued a significant change order to ensure the continued integrity of the steel envelope
 - Performed major plant maintenance on the re-carb tank
 - Implemented electronic work-order system with IMU administration
 - Attended IAMU session on status of the Jordan Aquifer.
- **Communications Utility.** The communications utility provides the infrastructure that transmits affordable, competitive, and technologically advanced telecommunications service for both retail and other public uses. Telephone and Internet services are offered to commercial customers through a contractual private/public partnership. Significant progress towards implementing operational strategies include.
 - Completed the ownership transition process of transferring telecom infrastructure assets to the electric utility through a buyout of private parties
 - Established Service Plan containing Rules & Regulations and licensing agreements; issued license to Mahaska Communications Group
 - Held meetings with MCG to begin planning for an expansion of the fiber-to-the-premise system as part of upcoming electric underground conversion projects
 - Added new customers (Simpson College and US Cellular), which improved gross margin collection
 - Informed by MCG of new wholesale telecom contract terms that will improve gross margin collections
 - Worked to develop new list of potential customers with cost/benefits of extending the system
 - Researched federal grant opportunities; performed survey to show lack of eligibility

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Operational Review - Continued

- Installed fiber conduits as part of the East Side of the Square and N. Howard projects.
 - Installed new services and system extensions around the southwest 65/69 & 92 corner and along Hwy 65/69 between Iowa and Hillcrest avenues.
 - Made improvements to City Hall fiber connection
 - Assisted with City staff to prepare the fiber for a phone system conversion
 - Completed design work related to the 2010 Underground Conversion Project
 - Submitted an application to Google for their Community Broadband project.
- **Administration.** All three utilities are administered by a combination of the IMU Board of Trustees and their staff, services provided by the City of Indianola through cost-sharing arrangements, and third-party contractors.

Public works activities primarily involve co-managing the public right of way. IMU also supports economic development and community betterment activities. Third, there are utility-specific services such as technical activities, safety, and utility programming. Last are the governance and professional services associated with oversight, regulatory actions, general management, human resources, fiduciary controls, public notifications and information systems, and legal compliance & risk management.

Public Works-

- Converted sample neighborhood to induction lighting to take measurements of actual energy used vs. comparative neighborhood
- Attempted to meet with private telecom providers to minimize rights of way issues when planning underground conversion and fiber projects
- Moved induction lights to a roadway location to determine performance
- Completed contracted tree trimming work
- Met with lighting contractor on new LED lights; ordered 6 for North “Y” street to be placed alongside the induction lights
- Installed new LED lights on North “Y” street alongside the induction lights
- Issued legal notices for pole removal where IMU facilities have been installed underground.

Economic Development & Community Betterment-

- Funded and worked with the Indianola Development Association (IDA) to promote the community and to solicit potential customers through contacts and proposals
- Met with City Council & Trustees; IDA presented new marketing plan efforts
- IDA Marketing Committee completed the new Development Guide

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Operational Review - Continued

- Submitted grant application to the U.S. Dept. of Energy for establishing geothermal water service to the proposed Summercrest development at Hwy 65/69 and E. Hillcrest Ave. Project was not funded.
- Surveyed telecom services received by residents within the proposed Phase I electric underground conversion area to determine eligibility for federal telecom funding. Access to existing broadband prevents eligibility.
- Worked on layout of new Service Guide and statement billing options
- Fireworks display and National Balloon Classic sponsorships.
- Participated in the City of Indianola Sustainability Committee
- IDA Marketing Committee began work on new Development Guide
- Remained involved with community recreation facility planning and other growth opportunities in the Summercrest Hills area
- Worked with Warren Co. officials on a wind turbine & geothermal unit project at the Annett Nature Center using U.S. Dept. of Energy funding
- Reviewed economic development programming options with Mayor and Council
- Coordinated establishing a Community Wellness Facility Planning Committee to promote economic development and utility growth.

Technical Services & Programs -

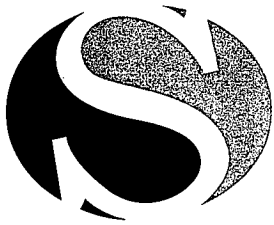
- Held the annual Customer Appreciation Day event complete with booths on utility operations, energy efficiency programs, and others.
- Researched, drafted, and submitted Iowa Power Fund Community Grant to perform a whole-town energy analysis and to assist in developing program and policy priorities
- Received the Iowa Power Fund Community Grant award notice; issued RFPs and began planning for the March – September 2010 project
- Initiated Phase I of the IPF Community Grant; selected contractor, hired & trained intern; created surveys, collected data and worked on study drafts
- Initiated plans for marketing stuffers inside statement billing envelopes
- Researched data for setting a renewable energy purchasing target at some point in the future
- Worked with the Iowa Association of Municipal Utilities on a new services contract to provide Safety Program assistance
- Held Sustainability Month activities throughout April.

CITY OF INDIANOLA, IOWA
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Operational Review - Continued

Governance and Professional Services-

- Bond rating maintained at A2 (Moody's) and A + (S&P)
- APPA designation as a Reliable Public Power Provider (RP3)
- Adopted new personnel policy manuals
- New employee evaluation forms implemented
- Revised Technical Services position duties
- Eligible employees achieved advancement in the electric apprenticeship program.
- General Manager completed the Public Power Manager Certificate Program
- Participated with the Midwest Municipal Transmission Group to review transmission investment opportunities.
- Participated in the Employee Insurance Committee
- Published public information via web site, bill stuffers, electronic newsletter, and bi-monthly update
- Converted from the Request Partner program to Gov-Q to interact with customers.
- Researched costs and began planning for re-design of web site, performance report, and service brochures. Service guide design completed.
- Extended banking and investment service agreements
- General ledger, accounts payable, and payroll converted to new software platform and new chart of accounts
- Utility billing converted to new software platform
- On-line utility payment option added to billing system
- Budget variance reports reformatted with new system/information
- A newly-created Quarterly Performance Report was issued
- Drafted and completed a revised Electric Service Plan
- Implemented new Water utility rates and adopted new Electric rate resolution effective November 1, 2009
- Designed new electronic work order database & tracking system
- Compiled information on long-term debt issuance financial implications
- Issued electric revenue debt
- Developed bond proceed investment strategy to maximize interest earnings on the total portfolio while maintaining liquidity to meet project expenditures
- Held planning meetings for installing the new phone system; installed wiring
- Planned for and drafted bi-annual customer survey.



Shull

and Co. P.C.
certified public accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Indianola Municipal Utilities
Indianola, Iowa

We have audited the accompanying statement of net assets of the Indianola Municipal Utilities, a component unit of the City of Indianola, Iowa, as of June 30, 2010 and 2009 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Indianola Municipal Utilities as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2010, on our consideration of the Indianola Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2010. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 14 through 20 and 35 through 36, are not a required part of the basic financial statements, but are supplementary information required by Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Shull & Co., P.C.

November 22, 2010

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A)

Indianola Municipal Utilities offers readers of its financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in this report.

2010 Financial Highlights

- Indianola Municipal Utilities has ending cash balances totaling \$12,123,365 to meet the utility's ongoing obligations to citizens, creditors, for capital reinvestment in utility operations, and for emergency repairs.
- The utility annually uses prior years' positive cash flow and balances to reinvest in capital assets, as detailed in the "Long term financial planning" section of this MD&A.
- As reported on the Statement of Cash Flows, total cash balances increased by \$8,541,876, primarily from \$5,180,862 in cash flows from capital and related financing activities. Net cash provided by operating activities was \$3,140,401, which increased by \$1,328,939 from the prior year. A non-recurring increase in current liabilities of \$1,172,776 is the primary reason for the improvement in net cash from operating activities.
- At the end of the current fiscal year, unrestricted and undesignated net assets totaled \$13,383,731, which increased by \$7,303,144 over the prior year. Construction contracts have been signed or planned that will use these funds for capital asset purchases in FY2011.
- The utility's total liabilities increased \$9,746,734 during the current fiscal year. Current liabilities increased by \$1,172,776 primarily due to the timing of receiving wholesale electric bills. Electric Revenue Bonds were issued in the amount of \$9,022,000.

Using this Annual Report

The annual report consists of a series of financial statements as well as other requirements as follows:

Management Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the government's financial activities.

The Financial Statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. These statements provide information about the activities of the utility as a whole and present an overall view of the utility's finances.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

Basis of accounting. Indianola Municipal Utilities maintains its financial records on the accrual basis and the financial statements presented in this report are prepared on that basis. The financial statements present the financial position and changes in financial position of the funds in accordance with U.S. generally accepted accounting principles.

Reporting the Utility's Financial Activities

One of the most important questions asked about the utility's finances is, "Is Indianola Municipal Utilities as a whole better off or worse off as a result of the year's activities?" The Financial Statements reports information which helps answer this question.

Fund Accounting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Separate funds are maintained for each utility. These funds are classified as business type, or proprietary, funds for reporting purposes.

Financial Statements. The Statement of Net Assets presents information on each utility's assets, liabilities, and equity. Over time, increases or decreases in unrestricted and undesignated net assets may serve as a useful indicator of whether the financial position of the utility is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets details the financial operating results of the utility during the most recent fiscal year, with a comparison to the prior year.

The Statement of Cash Flows provides the net increase or decrease in cash and investments as a result of operating, financing, and investment activities.

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INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

Analysis of Financial Activities

This section of the MD&A summarizes the financial data contained in the utility's financial statements. It also provides an analysis of the major activities affecting changes from the previous fiscal year.

Statement of Net Assets	Year ended June 30,	
	2010	2009
Assets		
Current	\$ 16,042,984	7,606,344
Restricted	1,815,450	958,941
Other	86,353	25,975
Capital	39,355,953	37,749,004
Total Assets	<u>57,300,740</u>	<u>46,340,264</u>
Liabilities		
Current	3,068,643	1,873,519
Long Term	12,092,845	3,541,235
Total Liabilities	<u>15,161,488</u>	<u>5,414,754</u>
Net Assets		
Invested Capital Assets	27,178,108	34,122,769
Restricted	1,397,084	562,923
Designated	180,329	159,231
Unrestricted & Undesignated	13,383,731	6,080,587
Total Net Assets	<u>\$ 42,139,252</u>	<u>40,925,510</u>

As shown above, total utility net assets remained relatively stable. Invested Capital Assets decreased because \$9,040,000 in Electric Revenue Notes were issued for major construction projects that were not yet in progress or completed. This is also reflected in the increase in both Current Assets and Long Term Liabilities. The utility also repaid \$465,000 in outstanding debt in FY 2010.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

Net Income	Year ended June 30,	
	2010	2009
Operating revenues		
Sales of electricity	\$ 8,973,880	8,423,835
Electrical capacity contract fees	336,050	224,175
Sales of water	1,963,686	1,801,922
Fiber communications rental fees	161,763	91,053
Other	96,608	100,622
Total operating revenue	<u>11,531,987</u>	<u>10,641,607</u>
Operating expenses		
Electric utility	7,477,743	7,133,502
Water utility	1,181,551	1,087,784
Fiber communications utility	63,319	92,397
Administrative and general	1,344,811	1,485,379
Transfer to city for Clerk's operations	277,700	261,800
Transfer to city in lieu of property taxes	456,200	482,450
Total operating expenses	<u>10,801,324</u>	<u>10,543,312</u>
Income from operations	<u>730,663</u>	<u>98,295</u>
Nonoperating revenue (expenses)		
Revenue	499,264	453,175
Expenses	<u>(165,050)</u>	<u>(170,956)</u>
Net Income	<u>\$ 1,064,877</u>	<u>380,514</u>

Income from operations improved from \$98,295 to \$730,663 as a result of a water rate increase in July 2009 and an electric rate increase in November 2009. The fiber utility also positively contributed to income from operations in FY 2010.

Budgetary Highlights

The board of trustees annually adopts a budget for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level (i.e. proprietary) for the city as a whole, not at the fund or fund type level. Notice is given and a public hearing is held on the budget. The budget may be amended during the year utilizing similar statutorily prescribed procedures. None of the amendments made, if any, negatively affect the following year's budget.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

Information pertaining to budgetary to actual receipts, disbursements, and changes in balances is provided in the financial statements on a cash basis. Highlights include:

- Disbursements were \$2,802,158 less than the amended budget due to timing of capital project disbursements.
- Ending balances were \$2,877,577 more than budgeted, but those funds are allocated to capital projects and are not available for ongoing operating expenditures in the future.

Capital Asset and Debt Administration

The utility issued \$9,040,000 in additional debt during the fiscal year.

The utility pledges electric rates to be sufficient to pay its pro-rata share of outstanding debt obligations of the Municipal Energy Agency of Nebraska under its wholesale energy contract.

The utility's bond rating remained A2 (Moody's) and A+ (S&P).

	Outstanding Debt at Year ended June 30,	
	2010	2009
Electric utility		
Revenue bonds	\$ 9,970,000	1,085,000
Water utility		
Revenue bonds	1,825,000	2,050,000
General Obligation bonds (issued by city)	795,000	880,000
Fiber communications utility	-	-
Total	<u>\$ 12,590,000</u>	<u>4,015,000</u>
Internal loan from Electric utility to Water utility	<u>\$ 3,249,948</u>	<u>3,404,077</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

Economic Factors and Next Year's Budgets and Rates

Local economy. The City of Indianola currently enjoys a favorable economic environment and local indicators point to continued moderate growth. The projection in 2010 is for Indianola to grow to a population of approximately 15,000, which represents an increase of 10% from the 2000 census. Although a primarily residential community, the varied nature of the educational, light manufacturing, agriculture services, and retail sectors of the local economy provides relative employment stability. Close proximity to the Des Moines metro area, the state capital with a combined population of approximately 460,000, provides employment for approximately 60% of the available workforce. Over the past 5 years, retail sales have grown at an annual average of over 1.5% and new single-family dwellings have been constructed at an average annual rate in excess of 50 units.

The region (which includes the City of Indianola and the surrounding unincorporated area within Warren County) has a moderate growth employment outlook over the next several years. New commercial construction is occurring along the four-lane highway between the City of Indianola and the Des Moines metropolitan area. A four-lane bypass to the south of the Des Moines metro, completed in 2002, provides increased commercial development opportunities for the community as it improved traffic flow from Indianola to the western Des Moines suburbs and the interstate highway system. The utility makes annual financial commitments to the Indianola Development Corporation and Warren County Economic Development Corporation, both non-related entities to the city, to support economic development in the region. The utility also offers its own revolving loan program to spur economic development and participates in the Choose Des Moines Communities program of the Greater Des Moines Partnership.

Long-term financial planning. The utility annually adopts a 5-year capital improvement budget that prioritizes foreseen projects. Those with potential long-term significant impacts to the cash balances and financial operations of the utility are:

- Phase II of the long-term electric underground conversion project. Additional debt of \$5 million can be structured within current electric rates. It is anticipated this would be issued within 3-5 years.
- Water main replacements estimated at \$600,000 using G.O. bond proceeds issued by the City of Indianola as part of street reconstruction projects.
- Construction of additional fiber optic trunk lines within the next 5 years (amount dependent upon opportunities to obtain adequate financial returns on investment).

Potential regulatory changes over the next 3-5 years with the most fiscal impact is climate control legislation and renewable energy purchasing requirements. Both would increase wholesale energy purchase costs per kwh. However, the cost of energy adjustment could be imposed to recover unanticipated costs without the need for board action.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

Budgets and Rates. Indianola Municipal Utilities increased electrical rates in FY 2009 and additional annual rate increases are planned for the foreseeable future to maintain bond coverage for new debt being issued to fund capital projects and pay for projected wholesale energy costs. Water rates increased \$.50/1,000 gallons in FY 2009 and another \$.75/1,000 gallon increase is planned for FY 2011.

Requests for Information

This financial report is designed to provide a general overview of Indianola Municipal Utilities' finances for all those with an interest in the utility's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance & Administrative Services or to the City Clerk, who serves as the Secretary of the Board of Trustees. Their offices are located at 110 N. First St., PO Box 299, Indianola, IA 50125 with a telephone number of 515-961-9410.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Net Assets
June 30, 2010 and 2009

ASSETS	<u>2010</u>	<u>2009</u>
Current assets		
Cash and investments	\$ 12,123,365	4,437,998
Accounts receivable - customers	1,897,372	1,500,723
Other accounts receivable	18,477	1,021
Accrued interest receivable	24,461	42,561
Inventories	<u>1,979,309</u>	<u>1,624,041</u>
Total current assets	<u>16,042,984</u>	<u>7,606,344</u>
 Restricted assets - cash and investments		
Electric revenue note and interest sinking fund	37,500	36,107
Electric revenue note debt service reserve fund	1,008,000	152,500
Electric revenue note improvement fund	207,691	207,691
Water revenue bond and interest sinking fund	166,559	166,943
Water revenue bond debt service reserve fund	320,700	320,700
Water revenue bond water improvement fund	<u>75,000</u>	<u>75,000</u>
	<u>1,815,450</u>	<u>958,941</u>
 Electric utility plant and equipment, net of accumulated depreciation of \$20,542,963 (2009 - \$19,402,302)	24,794,670	22,946,964
Water utility plant and equipment, net of accumulated depreciation of \$8,447,008 (2009 - \$7,932,023)	14,430,347	14,620,993
Fiber communications utility plant and equipment, net of accumulated depreciation of \$718,775 (2009 - \$668,664)	<u>130,936</u>	<u>181,047</u>
	<u>39,355,953</u>	<u>37,749,004</u>
 Bond and note issue costs, net of accumulated amortization of \$18,830 (2009 - \$15,005)	<u>86,353</u>	<u>25,975</u>
	<u>\$ 57,300,740</u>	<u>46,340,264</u>

See accompanying notes to financial statements.

	2010	2009
LIABILITIES		
Current liabilities		
Accounts payable	\$ 2,369,258	1,224,148
Wages and benefits payable	160,342	128,270
Sales tax payable	25,500	15,494
Deferred rental fees	10,177	24,589
General obligation bonds payable within one year	85,000	85,000
Total current liabilities	<u>2,650,277</u>	<u>1,477,501</u>
Current liabilities payable from restricted assets		
Accrued interest payable	28,366	16,018
Electric revenue capital loan notes payable within one year	155,000	155,000
Water revenue refunding capital loan notes payable within one year	235,000	225,000
Current liabilities payable from restricted assets	<u>418,366</u>	<u>396,018</u>
Electric revenue capital loan notes payable after one year (net of unamortized discount of \$20,108 (2009 - \$3,798))	9,794,892	926,202
General obligation bonds payable after one year (net of unamortized discount of \$6,770 (2009 - \$7,683))	703,230	787,317
Water revenue refunding capital loan notes payable after one year (net of unamortized premium of \$4,723 (2009 - \$2,716))	<u>1,594,723</u>	<u>1,827,716</u>
Total long term liabilities	<u>12,092,845</u>	<u>3,541,235</u>
 Total liabilities	 <u>\$ 15,161,488</u>	 <u>5,414,754</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 27,178,108	34,122,769
Restricted for debt service	1,114,393	280,232
Restricted for electric utility improvements	207,691	207,691
Restricted for water utility improvements	75,000	75,000
Unrestricted		
Designated for payment of insurance coverage deductibles	26,607	22,937
Designated for economic development revolving loan fund	153,722	136,294
Undesignated	<u>13,383,731</u>	<u>6,080,587</u>
Total unrestricted	<u>13,564,060</u>	<u>6,239,818</u>
 Total net assets	 <u>\$ 42,139,252</u>	 <u>40,925,510</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues		
Sales of electricity	\$ 8,973,880	8,423,835
Sales of water	1,963,686	1,801,922
Fiber communications rental fees	161,763	91,053
Capacity contract fees	336,050	224,175
Other	96,608	100,622
Total operating revenues	<u>11,531,987</u>	<u>10,641,607</u>
Operating expenses		
Electric utility		
Purchased energy	4,920,676	4,926,823
Plant operation and maintenance	369,247	277,412
Distribution operation and maintenance	1,044,844	859,768
Depreciation and amortization	1,142,976	1,069,499
Water utility		
Plant operation and maintenance	488,660	420,311
Distribution operation and maintenance	176,395	164,648
Depreciation and amortization	516,496	502,825
Fiber communications utility		
Operation and maintenance	13,208	10,572
Depreciation and amortization	50,111	81,825
Administrative and general	1,344,811	1,485,379
Transfer to city for Clerk's operations	277,700	261,800
Transfer to city in lieu of property taxes	456,200	482,450
Total operating expenses	<u>10,801,324</u>	<u>10,543,312</u>
Income from operations	<u>730,663</u>	<u>98,295</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Revenues, Expenses and Changes in Net Assets - Continued
Years Ended June 30, 2010 and 2009

Nonoperating revenues (expenses)		
Investment income	202,512	249,701
Connection fees	41,758	34,463
Gain on sale of capital assets	1,000	-
Other	253,994	169,011
Interest expense	(165,050)	(170,956)
	<u>334,214</u>	<u>282,219</u>
Net income	1,064,877	380,514
Capital contributions from customers and developers	145,872	72,762
Capital contributions from water main connection fees	<u>2,993</u>	<u>2,026</u>
Change in net assets	1,213,742	455,302
Net assets, beginning of year	<u>40,925,510</u>	<u>40,470,208</u>
Net assets, end of year	<u>\$ 42,139,252</u>	<u>40,925,510</u>

See accompanying notes to financial statements.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Cash Flows
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Cash received from customers	\$11,056,880	10,401,243
Cash paid to suppliers	(6,387,455)	(7,065,140)
Cash paid to employees	(1,825,776)	(1,728,115)
Other nonoperating fees and revenues received	<u>296,752</u>	<u>203,474</u>
Net cash provided by operating activities	<u>3,140,401</u>	<u>1,811,462</u>
Cash flows from capital and related financing activities		
Purchases and construction of electric utility plant and equipment	(2,847,120)	(1,272,385)
Purchases and construction of water utility plant and equipment	(316,721)	(357,066)
Electric revenue capital loan notes issued	9,022,000	-
Bond issue costs paid	(64,203)	-
General obligation bond principal paid	(85,000)	(80,000)
General obligation bond interest paid	(33,600)	(35,900)
Electric revenue capital loan notes principal paid	(155,000)	(155,000)
Electric revenue capital loan notes interest paid	(40,610)	(48,491)
Water revenue refunding capital loan notes principal paid	(225,000)	(220,000)
Water revenue refunding capital loan notes interest paid	<u>(73,884)</u>	<u>(81,018)</u>
Net cash used by capital and related financing activities	<u>5,180,862</u>	<u>(2,249,860)</u>
Cash flows from investing activities		
Investment income received	<u>220,613</u>	<u>231,259</u>
Net cash provided by investing activities	<u>220,613</u>	<u>231,259</u>
Net increase (decrease) in cash and investments	8,541,876	(207,139)
Cash and investments, beginning of year	<u>5,396,939</u>	<u>5,604,078</u>
Cash and investments, end of year	<u>\$13,938,815</u>	<u>5,396,939</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Cash Flows - Continued
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	\$ 730,663	98,295
Adjustments		
Other nonoperating fees and revenues	296,752	203,474
Depreciation and amortization	1,709,583	1,654,149
(Increase) decrease in accounts receivable - customers	(414,105)	(172,706)
(Increase) decrease in inventories	(355,268)	(25,859)
Increase (decrease) in accounts, wages and benefits, and sales tax payable	1,187,188	59,183
Decrease in deferred rental fees	<u>(14,412)</u>	<u>(5,074)</u>
Net cash provided by operating activities	<u>\$ 3,140,401</u>	<u>1,811,462</u>
Noncash capital and related financing and investing activities		
Developer contributions of electric utility plant and equipment	\$ 141,247	60,650
Developer contributions of water utility plant and equipment	4,625	12,112

See accompanying notes to financial statements.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements present the financial position, changes in financial position and cash flows of the Indianola Municipal Utilities of the City of Indianola, Iowa. The Utilities are governed by a five member board appointed by the City Council and is considered a component unit of the City of Indianola, Iowa. These financial statements are not intended to present the financial position of the City of Indianola, Iowa, and the changes in its financial position and cash flows of its proprietary fund types.

Accounting method - The accounting records of the Utilities are maintained on a cash basis. The accompanying financial statements have been prepared, after giving effect to all material adjustments including amounts due from utility customers and due to suppliers of goods and services, to reflect the account balances and results of operations on the accrual basis.

The Utilities report their financial activity in accordance with all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.

Inventories - Inventories, which consist of fuel oil and supplies, are stated at the lower of cost (first-in, first-out basis) or net realizable value.

Depreciation - Depreciation expense is computed using the straight-line method and estimated useful lives as follows:

Electric utility	
Power plant building	50 years
Generating units	25 years
Transmission and distribution systems	40 years
Vehicles	10 years
Computer equipment	5 years
Water utility	
Buildings and plant	40 years
Wells and towers	30-50 years
Mains and hydrants	50 years
Meters	20 years
Machinery and equipment	15 years
Vehicles	10 years
Fiber communications utility	
Distribution and connection systems	10 years

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Investments and Interest Income - Cash balances available from each of the funds of the City of Indianola, Iowa are pooled for investment and cash management purposes. Investments purchased by the pool are stated at cost or amortized cost. Interest earned on pooled investments is allocated monthly on the basis of the funds' ending cash and investment balances. Because the cash of Indianola Municipal Utilities is deposited with or withdrawn from the cash and investment pool without restriction the allocated share of the pool has been treated as a cash equivalent in the accompanying statement of cash flows.

2. UTILITY PLANT AND EQUIPMENT

The following is a summary of utility plant and equipment in service as of June 30, 2010 and 2009:

	2010	2009
Electric utility		
Land	\$ 359,207	359,207
Service territory	446,000	446,000
Generating units	15,166,273	15,161,374
Transmission and distribution systems	25,155,242	22,363,617
Power plant building	2,117,908	1,981,505
Computer equipment	393,149	380,666
Equipment	737,888	718,211
Vehicles	961,966	938,686
	<u>\$ 45,337,633</u>	<u>42,349,266</u>
Water utility		
Land	\$ 416,270	416,270
Service territory	328,412	328,412
Buildings and plant	7,595,528	7,595,528
Wells and towers	4,047,005	3,893,194
Mains, hydrants and meters	9,722,290	9,619,812
Machinery and equipment	591,697	591,697
Vehicles	176,153	108,103
	<u>\$ 22,877,355</u>	<u>22,553,016</u>
Fiber communications utility		
Distribution and connection systems	<u>\$ 849,711</u>	<u>849,711</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2010 and 2009

3. REVENUE BONDS AND NOTES PAYABLE

In February 2006 the Utility issued \$1,525,000 Electric Revenue Capital Loan Notes. The proceeds from the notes were used for improvements and extensions to the Municipal Electric Utility. Principal payments in increasing amounts are due annually beginning in May 2007. Interest on the notes at rates of 3.30% to 4.00% (a weighted average rate of 3.74%) per annum is due semi-annually beginning November 1, 2006. Final maturity of the notes is May 1, 2016.

In June 2010 the Utility issued \$9,040,000 Electric Revenue Capital Loan Notes. The proceeds from the notes were used for improvements and extensions to the Municipal Electric Utility. Principal payments in increasing amounts are due annually beginning in May 2012. Interest on the notes at rates of 2.00% to 4.00% (a weighted average rate of 3.76%) per annum is due semi-annually beginning November 1, 2010. Final maturity of the notes is May 1, 2025.

The Electric Revenue Capital Loan Note resolutions require the establishment of revenue bond operation and maintenance, sinking, reserve fund and improvement funds and require the accumulation of funds in the accounts and restrict the use of such funds as follows:

Operation and maintenance- Amount that results from the monthly accumulation of current expenses plus one-twelfth of expenses paid on an annual basis. Use of funds is for paying current operating expenses.

Sinking – Amount that results from the monthly accumulation of one-sixth of the next semi-annual interest payment, plus one-twelfth of the next annual principal payment. Use of funds is restricted to paying current principal and interest on bonds.

Reserve – Amount that results from 25% of the amount required to be deposited in the sinking account. However, after a reserve amount equal to the maximum amount of principal and interest coming due in any succeeding year, no further deposits are required. Use of funds is restricted to funding any deficit in the sinking account.

Improvement – Amount that results from the monthly accumulation of \$3,500 until \$200,000 has been accumulated. Use of funds is restricted to funding any deficit in the sinking and reserve accounts or paying the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget of revenues and current expenses, payments of rentals on any part of the system, and for capital improvements to the system.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2010 and 2009

3. REVENUE BONDS AND NOTES PAYABLE - Continued

Revenue capital loan note debt service requirements are as follows as of June 30, 2010:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 155,000	305,299	460,299
2012	985,000	337,330	1,322,330
2013	1,005,000	314,995	1,319,995
2014	1,025,000	292,183	1,317,183
2015	520,000	260,192	780,192
2016-2020	2,845,000	1,023,750	3,868,750
2021-2025	<u>3,435,000</u>	<u>423,600</u>	<u>3,858,600</u>
	<u>\$9,970,000</u>	<u>2,957,349</u>	<u>12,927,349</u>

In August 2004 the City issued \$2,485,000 of Water Revenue Refunding Capital Loan Notes, with interest rates ranging from 2.55% to 4.20%, for a crossover refunding of a portion of the revenue bonds issued December 1996. The Utilities entered in to an escrow agreement whereby the proceeds were converted into U.S. Treasury securities. These securities were placed in an escrow account for the express purpose of paying the \$2,385,000 principal on the refunded revenue bonds when they became callable on December 1, 2006 and the interest from August 15, 2004 to and including December 1, 2006 on the refunding capital loan notes. On December 1, 2006 the remaining principal and interest on the outstanding December 1996 revenue bonds were paid.

The capital loan notes require the establishment of revenue note operation and maintenance, sinking, reserve, and improvement funds and require the accumulation of funds in the accounts and restrict the use of such funds as follows:

Operation and maintenance - Amount that results from the monthly accumulation of current expenses plus one-twelfth of expenses paid on an annual basis. Use of funds is for paying current operating expenses.

Sinking - Amount that results from the monthly accumulation of one-sixth of the next semi-annual interest payment, plus one-twelfth of the next annual principal payment. Use of funds is restricted to paying current principal and interest on bonds.

Reserve - Amount that results from 25% of the amount required to be deposited in the sinking account. However, after a reserve amount equal to the maximum amount of principal and interest coming due in any succeeding year, no further deposits are required. Use of funds is restricted to funding any deficit in the sinking account.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2010 and 2009

3. REVENUE BONDS AND NOTES PAYABLE - Continued

Improvement - Amount that results from an initial deposit of \$50,000, then the monthly accumulation of \$2,000 until \$75,000 has been accumulated. Use of funds is restricted to funding any deficit in the sinking and reserve accounts or paying the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget of revenues and current expenses, payments of rentals on any part of the system, and for capital improvements to the system.

The revenue capital loan notes mature in annual installments of \$215,000 to \$290,000 through December 2016 and bear interest at rates of 2.55% to 4.20% payable semiannually. Debt service requirements were as follows as of June 30, 2010:

Year ending June 30,	Principal	Interest	Total
2011	\$ 235,000	66,345	300,617
2012	240,000	58,030	298,884
2013	250,000	49,023	301,345
2014	260,000	39,330	298,030
2015	270,000	28,992	299,023
2016-2017	570,000	24,010	1,192,332
	<u>\$1,825,000</u>	<u>265,730</u>	<u>2,090,730</u>

4. GENERAL OBLIGATION BONDS PAYABLE

In October 2003 the City of Indianola issued \$2,410,000 General Obligation Bonds, a portion of which was transferred to the Municipal Water Utility to finance a portion of the costs of constructing water system improvements. Although the bonds are a general obligation of the City and the City has authority to levy property taxes to pay the bonds and related interest as payments come due, it is the intention of the Trustees and the City Council that the payments of \$1,275,000 of bond principal and related interest be financed by the operations of the Municipal Water Utility. Accordingly, that portion of the bonds are reported as a liability and the interest payments are reported as an expense of the Utilities in these financial statements. Municipal Water Utility principal payments are due on the notes in amounts of \$10,000 to \$115,000 from June 1, 2004 through June 1, 2018. Interest on the notes at rates of 2.25% to 3.9% (a weighted average rate of 3.4%) per annum is due semiannually beginning June 1, 2004.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2010 and 2009

4. GENERAL OBLIGATION BONDS PAYABLE - Continued

The Municipal Water Utility portion of general obligation bond debt service requirements are as follows as of June 30, 2010:

Year ending June 30,	Principal	Interest	Total
2011	\$ 85,000	30,927	115,927
2012	90,000	28,122	118,122
2013	95,000	24,973	119,973
2014	95,000	21,410	116,410
2015	100,000	17,705	117,705
2016-2018	330,000	28,045	358,045
	<u>\$ 795,000</u>	<u>151,182</u>	<u>946,182</u>

5. COMPENSATED ABSENCES

Indianola Municipal Utilities employees accumulate vacation hours, compensating time off and sick leave for subsequent use. Unused vacation hours and compensating time off are payable upon termination, retirement or death. These amounts are included in wages and benefits payable as of June 30, 2010 and 2009. Accrued sick leave benefits as of June 30, 2010 of approximately \$268,814 (2009 - \$251,091) are payable only when used and have not been accrued.

6. PENSION AND RETIREMENT BENEFITS

The Indianola Municipal Utilities contributes to the Iowa Public Employees Retirement system (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and Indianola Municipal Utilities is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. Indianola Municipal Utilities contribution to IPERS for the year ended June 30, 2010 was \$81,357 (2009 - \$77,475), equal to the required contribution for the year.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2010 and 2009

7. RISK MANAGEMENT

The City of Indianola is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 384.12 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler and machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basic rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Indianola Municipal Utilities' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Utilities' annual contributions to the Pool for the year ended June 30, 2010 were \$114,853 (2009 - \$119,198).

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2010 and 2009

7. RISK MANAGEMENT - Continued

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Utilities do not report a liability for losses in excess of reinsurance or excess risk - sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2010, no liability has been recorded in the Utilities financial statements. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one year period following withdrawal.

Indianola Municipal Utilities is a member of the Iowa Municipalities Workers' Compensation Association (the "Association"). The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. Indianola Municipal Utilities has executed a Worker's Compensation Coverage Agreement with the Association which extends through June 30, 2010 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2010, Indianola Municipal Utilities paid workers' compensation insurance premiums of \$30,568 (2009 - \$30,427) to the Association.

8. COMMITMENTS

The Indianola Municipal Utilities have entered into contracts for electric underground conversion, and a water tower coating project totaling approximately \$4,423,648. The remaining commitment on these contracts at June 30, 2010 is \$3,340,726.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2010 and 2009

4. REVENUE BONDS AND NOTES PAYABLE - Continued

Revenue capital loan note debt service requirements are as follows as of June 30, 2010:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 155,000	305,299	460,299
2012	985,000	337,330	1,322,330
2013	1,005,000	314,995	1,319,995
2014	1,025,000	292,183	1,317,183
2015	520,000	260,192	780,192
2016-2020	2,845,000	1,023,750	3,868,750
2021-2025	3,435,000	423,600	3,858,600
	<u>\$9,970,000</u>	<u>2,957,349</u>	<u>12,927,349</u>

In August 2004 the City issued \$2,485,000 of Water Revenue Refunding Capital Loan Notes, with interest rates ranging from 2.55% to 4.20%, for a crossover refunding of a portion of the revenue bonds issued December 1996. The Utilities entered in to an escrow agreement whereby the proceeds were converted into U.S. Treasury securities. These securities were placed in an escrow account for the express purpose of paying the \$2,385,000 principal on the refunded revenue bonds when they became callable on December 1, 2006 and the interest from August 15, 2004 to and including December 1, 2006 on the refunding capital loan notes. On December 1, 2006 the remaining principal and interest on the outstanding December 1996 revenue bonds were paid.

The capital loan notes require the establishment of revenue note operation and maintenance, sinking, reserve, and improvement funds and require the accumulation of funds in the accounts and restrict the use of such funds as follows:

Operation and maintenance - Amount that results from the monthly accumulation of current expenses plus one-twelfth of expenses paid on an annual basis. Use of funds is for paying current operating expenses.

Sinking - Amount that results from the monthly accumulation of one-sixth of the next semi-annual interest payment, plus one-twelfth of the next annual principal payment. Use of funds is restricted to paying current principal and interest on bonds.

Reserve - Amount that results from 25% of the amount required to be deposited in the sinking account. However, after a reserve amount equal to the maximum amount of principal and interest coming due in any succeeding year, no further deposits are required. Use of funds is restricted to funding any deficit in the sinking account.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2010 and 2009

4. REVENUE BONDS AND NOTES PAYABLE - Continued

Improvement - Amount that results from an initial deposit of \$50,000, then the monthly accumulation of \$2,000 until \$75,000 has been accumulated. Use of funds is restricted to funding any deficit in the sinking and reserve accounts or paying the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget of revenues and current expenses, payments of rentals on any part of the system, and for capital improvements to the system.

The revenue capital loan notes mature in annual installments of \$215,000 to \$290,000 through December 2016 and bear interest at rates of 2.55% to 4.20% payable semiannually. Debt service requirements were as follows as of June 30, 2010:

Year ending June 30,	Principal	Interest	Total
2011	\$ 235,000	66,345	300,617
2012	240,000	58,030	298,884
2013	250,000	49,023	301,345
2014	260,000	39,330	298,030
2015	270,000	28,992	299,023
2016-2017	570,000	24,010	1,192,332
	<u>\$1,825,000</u>	<u>265,730</u>	<u>2,090,730</u>

5. GENERAL OBLIGATION BONDS PAYABLE

In October 2003 the City of Indianola issued \$2,410,000 General Obligation Bonds, a portion of which was transferred to the Municipal Water Utility to finance a portion of the costs of constructing water system improvements. Although the bonds are a general obligation of the City and the City has authority to levy property taxes to pay the bonds and related interest as payments come due, it is the intention of the Trustees and the City Council that the payments of \$1,275,000 of bond principal and related interest be financed by the operations of the Municipal Water Utility. Accordingly, that portion of the bonds are reported as a liability and the interest payments are reported as an expense of the Utilities in these financial statements. Municipal Water Utility principal payments are due on the notes in amounts of \$10,000 to \$115,000 from June 1, 2004 through June 1, 2018. Interest on the notes at rates of 2.25% to 3.9% (a weighted average rate of 3.4%) per annum is due semiannually beginning June 1, 2004.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2010 and 2009

5. GENERAL OBLIGATION BONDS PAYABLE - Continued

The Municipal Water Utility portion of general obligation bond debt service requirements are as follows as of June 30, 2010:

Year ending June 30,	Principal	Interest	Total
2011	\$ 85,000	30,927	115,927
2012	90,000	28,122	118,122
2013	95,000	24,973	119,973
2014	95,000	21,410	116,410
2015	100,000	17,705	117,705
2016-2018	330,000	28,045	358,045
	<u>\$ 795,000</u>	<u>151,182</u>	<u>946,182</u>

6. COMPENSATED ABSENCES

Indianola Municipal Utilities employees accumulate vacation hours, compensating time off and sick leave for subsequent use. Unused vacation hours and compensating time off are payable upon termination, retirement or death. These amounts are included in wages and benefits payable as of June 30, 2010 and 2009. Accrued sick leave benefits as of June 30, 2010 of approximately \$268,814 (2009 - \$251,091) are payable only when used and have not been accrued.

7. PENSION AND RETIREMENT BENEFITS

The Indianola Municipal Utilities contributes to the Iowa Public Employees Retirement system (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and Indianola Municipal Utilities is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. Indianola Municipal Utilities contribution to IPERS for the year ended June 30, 2010 was \$81,357 (2009 - \$77,475), equal to the required contribution for the year.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2010 and 2009

8. RISK MANAGEMENT

The City of Indianola is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 384.12 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler and machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basic rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Indianola Municipal Utilities' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Utilities' annual contributions to the Pool for the year ended June 30, 2010 were \$114,853 (2009 - \$119,198).

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2010 and 2009

8. RISK MANAGEMENT - Continued

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Utilities do not report a liability for losses in excess of reinsurance or excess risk - sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2010, no liability has been recorded in the Utilities financial statements. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

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Indianola Municipal Utilities is a member of the Iowa Municipalities Workers' Compensation Association (the "Association"). The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. Indianola Municipal Utilities has executed a Worker's Compensation Coverage Agreement with the Association which extends through June 30, 2010 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2010, Indianola Municipal Utilities paid workers' compensation insurance premiums of \$30,568 (2009 - \$30,427) to the Association.

9. COMMITMENTS

The Indianola Municipal Utilities have entered into contracts for electric underground conversion, and a water tower coating project totaling approximately \$4,423,648. The remaining commitment on these contracts at June 30, 2010 is \$3,340,726.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Budgetary Comparison Schedule of Receipts, Disbursements
And Changes in Balances – Budget and Actual (Cash Basis)
Year Ended June 30, 2010

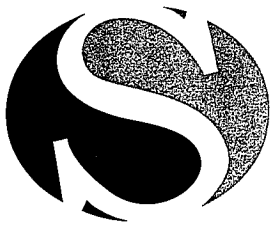
		Budget Amounts		Final
	Actual	Original	Final	to Actual Variance
Receipts				
Use of money and property	\$ 275,212	251,700	251,700	23,512
Intergovernmental	5,000	-	-	5,000
Charges for service	11,640,070	11,622,800	11,622,800	17,270
Special assessments	2,993	300	300	2,693
Miscellaneous	99,843	49,300	49,300	50,543
Total receipts	12,023,118	11,924,100	11,924,100	99,018
Disbursements				
Business type activities	11,605,242	11,622,300	14,407,400	2,802,158
Excess of receipts over (under) disbursements	417,876	301,800	(2,483,300)	2,901,176
Other financing sources (uses)				
Sale of assets	1,000	-	-	1,000
Capital loan note proceeds	9,022,001	1,695,000	9,000,000	22,001
Operating transfers out	(899,000)	(852,400)	(852,400)	(46,600)
Total other financing sources (uses)	8,124,001	842,600	8,147,600	(23,599)
Excess of receipts and other financing sources over (under) disbursements and other financing uses	8,541,877	1,144,400	5,664,300	2,877,577
Balances, beginning of year	5,396,938	5,396,938	5,396,938	-
Balances, end of year	\$ 13,938,815	6,541,338	11,061,238	2,877,577

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Required Supplementary Information –
Budgetary Reporting
Year Ended June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the code of Iowa, the Board of Trustees with the approval of the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, for the City of Indianola as a whole, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.



Shull

and Co. P.C.
certified public accountants

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Indianola Municipal Utilities
Indianola, Iowa

We have audited the financial statements of Indianola Municipal Utilities of the City of Indianola, Iowa, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 22, 2010. Our report expressed an unqualified opinion on the financial statements, which were prepared in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Indianola Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Indianola Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Indianola Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Indianola Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of control deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Indianola Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Indianola Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utility's responses, we did not audit the Indianola Municipal Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Indianola Municipal Utilities and other parties to whom the Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Indianola Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



November 22, 2010

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Schedule of Findings

Year ended June 30, 2010

Part I: Summary of the Independent Auditor's Results:

- (A) An unqualified opinion was issued on the financial statements.
- (B) The audit did not disclose any significant deficiencies or material weaknesses in internal control over financial reporting.
- (C) The audit did not disclose any noncompliance which is material to the financial statements.
- (D) There were no major federal programs.
- (E) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (F) The Indianola Municipal Utilities did not qualify as a lowrisk auditee.

Part II: Findings Related to the Financial Statements:

None

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Required Statutory Reporting:

- 10-IV-A Certified Budget – Disbursements during the year ended June 30, 2010 did not exceed amounts budgeted.
- 10-IV-B Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- 10-IV-C Travel Expense - No expenditures of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.
- 10-IV-D Business Transactions – No business transactions between the Indianola Municipal Utilities officials or employees were noted.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Schedule of Findings - Continued

Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

10-IV-E Bond Coverage - Surety bond coverage of Utilities officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

10-IV-F Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.

10-IV-G Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.

10-IV-H Revenue Bonds and Notes -The requirements of the water revenue bonds and notes resolutions were met during the year ended June 30, 2010. However, the requirements of the electric revenue bonds and notes resolutions were not met during the year ended June 30, 2010. The electric reserve and sinking funds were underfunded by \$48,500 and \$32,948, respectively.

Recommendation - The City should transfer the appropriate amounts according to the requirements of the electric revenue bonds and notes resolutions.

Response - We will transfer in the future as recommended.

Conclusion - Response accepted.

10-IV-I Telecommunications Services -No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.